

# City of Calistoga

## Staff Report

**TO:** Honorable Mayor and City Council  
**FROM:** Bill Mushallo, Administrative Services Director  
**DATE:** February 15, 2011  
**SUBJECT:** Discussion regarding Fiscal Year 2010/11 General Fund Budget Update

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**APPROVAL FOR FORWARDING:**

  
Richard Spitler, City Manager

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1 **ISSUE:** To hear a brief financial update regarding the 2010/11 budget.

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3 **RECOMMENDATION:** To review and provide feedback regarding the Mid-Year  
4 Financial Update.

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6 **BACKGROUND:** In June 2010 the fiscal year 2010/11 budget was presented to and  
7 adopted by the City Council. Since the June 29th budget presentation 2010/11  
8 revenues and expenditures have been updated through December 31, 2010. We have  
9 analyzed the actual revenues to date and have updated projections for the remainder of  
10 the fiscal year. Based on that analysis and those projections estimates of where we will  
11 end the 2010/11 fiscal year have been revised. A summary of changes in the major  
12 revenue categories is presented below.

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14 Transient Occupancy Tax, the City's largest General Fund revenue source, continues to  
15 rebound versus the same periods in 2009/10. You may remember that 2009/10 TOT  
16 results were down 5% from the prior fiscal year, but began to rebound late in the fiscal  
17 year. That upward trend is continuing during the first half of 2010/11. July results were  
18 up 14% from the prior year and August was up 10%. September was also up, posting a  
19 5% gain over September of 2009. October, November and December were up  
20 respectively, 7%, 11% and 18% over prior year results. Based on these results, along  
21 with an updated projection of 2% growth for the remainder of 2010/11, we are projecting

22 TOT at \$3,239,922 for 2010/11. This will be approximately a 9% increase from our  
23 original budget projection in June.

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25 Since the June budget presentation we have received our 2010/11 property assessed  
26 valuation change estimates from Napa County. Back in June preliminary information  
27 received indicated that the County as a whole would see assessed valuations decrease  
28 slightly overall. It was projected that Calistoga would see assessed valuations decrease  
29 about 7% versus the prior fiscal year. Actual assessed valuations were down about 6%  
30 which was very close to what was projected. We have also received an updated  
31 estimate of our excess ERAF amount. Overall property tax revenue is projected to be  
32 up about \$62,000 or 4% from the original budget projection back in June.

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34 Sales tax results have been received for the first quarter of 2010/11. Cash receipts for  
35 first quarter were up 5% from the same quarter a year ago. Unfortunately the triple flip  
36 true up was revised down during the first quarter. Second quarter estimates are also in  
37 and should offset most of the downward triple flip adjustment. The impact on our fiscal  
38 year 2010/11 budget will be a reduction of 1% or \$6,000 less than our June budget  
39 estimate.

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41 We are reducing the revenue estimate in our Fines, Forfeits & Other category mainly  
42 due to less than anticipated interest earnings. The current earnings in our LAIF  
43 investment account has averaged only ½ of 1% over the past three months.

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45 During the Fall Financial Update it was reported that the state fire season was much  
46 quieter than prior years. Last year the Fire Department participated in several strike  
47 teams and had accumulated over \$100,000 in outstanding revenues from the State.  
48 While we had anticipated similar activity this year, it has not yet materialized. We are  
49 reducing our anticipated revenue from strike team reimbursements in our charges for  
50 services category accordingly. Other charges for services and reimbursements are also  
51 down including reimbursements for filing fees, POST reimbursements, staff time  
52 reimbursements, and other reimbursements.

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54 The bottom line is that we are anticipating 2010/11 revenues to be about \$159,000  
55 more than what was anticipated back in June. This equates to a 2.4% increase in  
56 revenues. Total 2010/11 General Fund operating revenues are now projected to be  
57 nearly \$6.8 million this fiscal year. The chart on the next page illustrates the revenue  
58 changes by category.

59

	June Budget	Fall Estimate	Mid Year Estimate	Dollar Change	% Change
<i>General Fund Operating Revenues:</i>	FY 10-11	FY 10-11	FY 10-11	Vs Budget	Vs Budget
Property Taxes	\$1,484,350	\$1,501,129	\$1,546,761	\$62,411	+4%
Sales Taxes	\$701,146	\$677,465	\$695,465	(\$5,681)	(1%)
TOT	\$2,972,000	\$3,141,740	\$3,239,922	\$267,922	+9%
Other Taxes	\$284,250	\$277,100	\$282,100	(\$2,150)	(1%)
Licenses & Permits	\$59,000	\$59,200	\$59,200	\$200	0%
Fines, Forfeits & Other	\$201,000	\$201,000	\$191,000	(\$10,000)	(5%)
Charges for Services	\$924,165	\$815,150	\$770,150	(\$154,015)	(17%)
<b>Total Operating Revenues:</b>	<b>\$6,625,911</b>	<b>\$6,672,784</b>	<b>\$6,784,598</b>	<b>158,687</b>	<b>+2.4%</b>

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 61 We have also analyzed actual expenditures incurred during the first six months of  
 62 2010/11. Departments have done an excellent job at managing their budgets and have  
 63 spent approximately 47% of their annual budgets to date. This leaves about 53% of  
 64 budgeted funds available for the remaining 6 months of the year (50%). This is very  
 65 tight and will continue to require strict expenditure management of departmental  
 66 budgets that were reduced significantly from the budgets of years prior.

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 68 As we finish our audit for Fiscal Year 2009/10 it is projected that the City's General  
 69 Fund reserve balance at June 30, 2010 will be approximately \$1.1 million or 16% of  
 70 expenditures. Of that amount, only approximately \$600,000 is cash and the balance of  
 71 \$500,000 is part of a loan due from the Wastewater enterprise. This dramatically limits  
 72 the General Fund's flexibility to deal with any unexpected events. It should also be  
 73 noted that we have not deducted any amounts from reserves related to debt service  
 74 payments on the 2007 financing or the Police Station. This annual debt service cost is  
 75 approximately \$600,000 and is typically funded from Public Safety and Quality of Life  
 76 development impact fees. Should those fees not materialize by June 30, 2011, the  
 77 General Fund will be required to make the payments. This is a likely scenario. This  
 78 could reduce available reserves significantly.

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 80 Cash flow is also a concern over the next 12 to 18 months. At June 30, 2009 the City  
 81 had approximately \$3.0 million in undesignated cash on hand. As of June 30, 2010 that  
 82 amount has dropped to approximately \$1.7 million. The \$1.3 million spent was for  
 83 significant legal fees, debt service on the Police Station and 2007 financing, and  
 84 shortfalls in the water and wastewater utilities. I anticipate a cash deficit again in 2010-  
 85 11 but it is hoped that rebounding TOT, updated water and wastewater rates, and  
 86 slowly increasing new development will help mitigate that shortfall somewhat. The  
 87 bottom line is that the City should minimize capital spending and diligently attempt to  
 88 conserve cash over the next 12 to 18 months.

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90 While the General Fund is likely to be within budget this fiscal year, there are many  
91 threats and risks on the horizon. I have categorized those threats into three groups.  
92 They are cash flow, expenditure and State budget threats.

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94 Cash flow threats:

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  - Inadequate impact fees to pay debt service on Police Station and 2007 financing
  - 97 • Current and additional litigation along with the associated costs
  - 98 • Water and wastewater connection fees slow to rebound due to lack of
  - 99 development
  - 100 • Significant water conservation will reduce water and wastewater user rate
  - 101 revenues

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103 Expenditure threats:

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  - PERS rate increases starting July 1st
  - 106 • Health insurance rate increases starting January 1, 2012
  - 107 • Other operating cost needs

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109 State Budget threats:

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  - Gas Tax funding reduction
  - 112 • COPS funding elimination (which presently funds \$100,000 of police staff and
  - 113 other activities)
  - 114 • County Fair funding reduction (possible indirect impact on city)

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116 The above mentioned threats are very real and could have significant negative impacts  
117 on the City's budget and cash reserves. It is critical that we develop a strategy to  
118 address them in the very near future.

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120 There are also opportunities out there that could help offset the impacts of those  
121 threats. They are as follows:

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  - Organizational opportunities- seek ways to provide more efficient delivery of city
  - 124 services
  - 125 • Labor negotiations- examine salary increases and benefits package assumptions
  - 126 • Development impact fee update- need to refresh nexus studies
  - 127 • Economic development – encourage appropriate new development
  - 128 • Cost recovery strategies- better management of current system

- Revenue generation mechanisms- seek means to generate revenue such as the revised Community Services fee schedule (presently before Council).

City staff will closely monitor potential threats over the next several months. It will be critical to develop a comprehensive multi-year strategy to address their impacts. In the very near future we will be bringing forward a preliminary forecast for 2011-12. This will set the stage for both our budget and labor negotiations processes.

Based on the analysis of revenues and expenditures to date it is not anticipated at this time that we will need to implement any additional budget deficit reduction measures in the current fiscal year. It is, however, only mid-year and a lot can happen between now and June 30th. Staff is preparing a list of budget adjustments for the current fiscal year that will require using the majority of the above mentioned revenue increases. It is anticipated that the list of budget adjustments will be brought to Council for consideration in the near future.

A spring financial update will also be brought to the City Council in late April or early May. At that time we will have 9 months of actual results for the current fiscal year and will also have an updated cash flow forecast to present.

Forecasts will continue to be updated using fair, realistic revenue assumptions. Expenditures will also be projected conservatively and should reasonably reflect what will occur over the remainder of 2010/11. Departments have continued to do an excellent job maintaining current levels of services after significant budget reductions were integrated in June and will be further challenged during the remainder of the fiscal year. We are confident that regular financial updates, along with proactive revenue/expenditure management, will keep us ahead of any additional unforeseen financial or economic developments.